

§ 567.7

12 CFR Ch. V (1–1–02 Edition)

asset and the related recourse obligations and direct credit substitutes under this section, and incorporate these amounts into the risk-based capital calculation.

(8) *Obligations of subsidiaries.* If a savings association retains a recourse obligation or assumes a direct credit substitute on the obligation of a subsidiary that is not an includable subsidiary, and the recourse obligation or direct credit substitute is an equity or debt investment in that subsidiary under generally accepted accounting principles, the face amount of the recourse obligation or direct credit substitute is deducted for capital under §§ 567.5(a)(2) and 567.9(c). All other recourse obligations and direct credit substitutes retained or assumed by a savings association on the obligations of an entity in which the savings association has an equity investment are risk-weighted in accordance with this paragraph (b).

[54 FR 49649, Nov. 30, 1989, as amended at 57 FR 33439, July 29, 1992; 57 FR 12709, Apr. 13, 1992; 57 FR 33440, July 29, 1992; 58 FR 476, Jan. 6, 1993; 58 FR 15086, Mar. 19, 1993; 58 FR 45813, Aug. 31, 1993; 59 FR 12810, Mar. 18, 1994; 59 FR 4788, Feb. 2, 1994; 59 FR 66652, Dec. 28, 1994; 60 FR 39232, Aug. 1, 1995; 60 FR 45621, Aug. 31, 1995; 62 FR 66264, Dec. 18, 1997; 63 FR 42678, Aug. 10, 1998; 64 FR 10201, Mar. 2, 1999; 66 FR 59663, Nov. 29, 2001]

§ 567.7 Interest-rate risk component.

(a) Except as provided in paragraph (c) of this section, a savings association's interest rate risk (IRR) is measured by the decline in the Net Portfolio Value (NPV) that would result from a 200 basis point increase or decrease in market interest rates (whichever results in the lower NPV) divided by the estimated economic value of assets, as calculated in accordance with the OTS Model and guidance issued by the OTS, which will be provided to savings associations and to others in accordance with paragraph (f) of this section. A savings association whose measured IRR exposure exceeds .02 (*i.e.*, 2%) must deduct an IRR component in calculating its total capital for purposes of determining whether it meets its risk-based capital requirement under § 567.2 of this part. The IRR component is an amount equal to one-half of the difference between its measured interest

rate risk and .02, multiplied by the estimated economic value of its total assets. Except as provided in paragraph (d) of this section, the IRR component deduction becomes effective beginning on the last day of the third quarter following the reporting date of the Schedule CMR on which the IRR component was based. For the purpose of this section, the reporting date is the last business day of each quarter.

(b) Unless they are exempt from this reporting requirement, all saving associations must file information pertaining to their interest rate risk exposure on a form or schedule designated by the Director. Savings associations with less than \$300 million in assets and risk-based capital ratios in excess of 12 percent are exempt from filing the Schedule CMR but will be required to provide selected information in the manner determined by the OTS. The Director of the OTS or his designee may, within his discretion, require any otherwise exempt savings association to file the Schedule CMR on a quarterly basis.

(c) A savings association's interest rate risk exposure is measured by the decline in the NPV that would result from a 200 basis point increase or decrease in market interest rates, except when the 3-month Treasury bond equivalent yield falls below 400 basis points. In that case, the decrease will be equal to one-half of that Treasury rate.

(d) If a savings association, demonstrates to the OTS that it has reduced its IRR, in dollar amount, by the end of the quarter following the reporting date of the Schedule CMR on which the savings association's IRR component was based, the IRR component shall be lowered to that amount.

(e) Exception. Notwithstanding paragraph (a) of this section, upon the request by a savings association, the Director of the OTS, or his designee, may waive or defer, but not lower except as a result of an appeal, a savings association's IRR component. For example, the Director may determine that a waiver or deferral is warranted if the savings association has taken meaningful steps to reduce or control its interest rate risk exposure.

(f) OTS will provide, upon request, manuals describing the OTS Model and guidance at the address set forth in § 516.40(b) of this chapter.

[58 FR 45813, Aug. 31, 1993, as amended at 59 FR 12811, Mar. 18, 1994; 66 FR 13009, Mar. 2, 2001]

§ 567.8 Leverage ratio.

(a) The minimum leverage capital requirement for a savings association assigned a composite rating of 1, as defined in § 516.3 of this chapter, shall consist of a ratio of core capital to adjusted total assets of 3 percent. These generally are strong associations that are not anticipating or experiencing significant growth and have well-diversified risks, including no undue interest rate risk exposure, excellent asset quality, high liquidity, and good earnings.

(b) For all savings associations not meeting the conditions set forth in paragraph (a) of this section, the minimum leverage capital requirement shall consist of a ratio of core capital to adjusted total assets of 4 percent. Higher capital ratios may be required if warranted by the particular circumstances or risk profiles of an individual savings association. In all cases, savings associations should hold capital commensurate with the level and nature of all risks, including the volume and severity of problem loans, to which they are exposed.

[64 FR 10201, Mar. 2, 1999]

§ 567.9 Tangible capital requirement.

(a) Savings associations shall have and maintain tangible capital in an amount equal to at least 1.5% of adjusted total assets.

(b) The following elements, less the amount of any deductions pursuant to paragraph (c) of this section, comprise a savings association's tangible capital:

(1) Common stockholders' equity (including retained earnings);

(2) Noncumulative perpetual preferred stock and related earnings;

(3) Nonwithdrawable accounts and pledged deposits that would qualify as core capital under § 567.5 of this part; and

(4) Minority interests in the equity accounts of fully consolidated subsidiaries.

(c) *Deductions from tangible capital.* In calculating tangible capital, a savings association must deduct from assets, and, thus, from capital:

(1) Intangible assets (as defined in § 567.1), servicing assets, and credit-enhancing interest-only strips not includable in tangible capital under § 567.12.

(2) Investments, both equity and debt, in subsidiaries that are not includable subsidiaries (including those subsidiaries where the savings association has a minority ownership interest), except as provided in paragraphs (c)(3) and (c)(4) of this section.

(3) If a savings association has any investments (both debt and equity) in one or more subsidiary(ies) engaged as of April 12, 1989 and continuing to be engaged in any activity that would not fall within the scope of activities in which includable subsidiaries may engage, it must deduct such investments from assets and, thus, tangible capital in accordance with this paragraph (c)(3). The savings association must first deduct from assets and, thus, capital the amount by which any investments in such a subsidiary(ies) exceed the amount of such investments held by the savings association as of April 12, 1989. Next, the savings association must deduct from assets and, thus, tangible capital the lesser of:

(i) The savings association's investments in and extensions of credit to the subsidiary as of April 12, 1989; or

(ii) The savings association's investments in and extensions of credit to the subsidiary on the date as of which the savings association's capital is being determined.

(4) If a savings association holds a subsidiary (either directly or through a subsidiary) that is itself a domestic depository institution the Office may, in its sole discretion upon determining that the amount of tangible capital that would be required would be higher if the assets and liabilities of such subsidiary were consolidated with those of the parent savings association than the amount that would be required if the parent savings association's investment were deducted pursuant to paragraphs (c)(2) and (c)(3) of this section,